

**AUDIT COMMUNICATION AND REPORT OF
COMMENTS AND RECOMMENDATIONS**

May 23, 2008

To the Downtown Development Authority
Mancelona, Michigan

We have audited the financial statements of The Mancelona Downtown Development Authority for the year ended February 29, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Auditors' Responsibility under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of The Mancelona Downtown Development Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances,

makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient, competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financials are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Significant Accounting Policies

The significant accounting policies are described in Note 1 to the financial statements.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to: 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

Internal Control Matters

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to

initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider each of the following significant deficiencies to be a material weakness.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the administrative staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected in the normal course.

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Organization has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Organization has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Organization has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other organizations of its size.

Summary

This information is intended solely for the use of the Board and Management of The Mancelona Downtown Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the foregoing comments, and would be happy to discuss any of these or other questions that you might have at your convenience.

Respectfully Yours,



Daniel S. Smith, CPA

DOWNTOWN DEVELOPMENT AUTHORITY
MANCELONA, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008

MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY

BOARD OF DIRECTORS

MIKE BIEHL – PRESIDENT

FRED BUHLAND – VICE PRESIDENT

DAN ROBINSON – TREASURER

ROBERT WILCOX – VILLAGE PRESIDENT

JOAN SHANNAHAN – RECORDING SECRETARY

COLIN KARNER

LUCIAN KEIL

SHARI HOGAN

DORI SWEET

KATHLEEN KITCHEN

BILL ROBERTSON

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May 16, 2008

INDEPENDENT AUDITOR'S REPORT

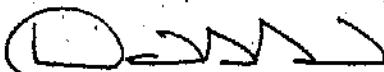
To the Downtown Development Authority
Mancelona, Michigan

I have audited the accompanying financial statements of the governmental activity and the major fund of the Mancelona Downtown Development Authority as of and for the year ended February 29, 2008, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Downtown Development Authority, a component unit of the Village of Mancelona, Michigan as of February 29, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, on pages 2 - 4, and the statement of revenues, expenditures, and changes in fund balance - budget and actual - page 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.



Daniel S. Smith, CPA

MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED FEBRUARY 29, 2008

This section of the annual financial report of the Mancelona Downtown Development Authority presents our discussion and analysis of the entity's financial performance during the fiscal year ended February 29, 2008. Please read it in conjunction with the financial statements which immediately follow this section.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. The change in net assets, as calculated on the full accrual basis of accounting was an increase of \$30,554. The excess of revenues over expenditures as calculated on the modified accrual basis of accounting was \$9,241.

Assets decreased \$6,720 from the prior year. Liabilities decreased by \$37,274 over the prior year.

Overall revenues were \$54,976, most of which are general in nature. Total expenses, as calculated on the accrual basis of accounting, amounted to \$24,422.

The Authority's revenues consist primarily of property taxes, collected from the Village of Mancelona and Mancelona Township for properties within the DDA district, and interest earnings. The Authority's revenue has decreased \$12,940 from the prior year.

The Authority was involved in community projects during the year which included purchasing flowers for the downtown area, continuing to pay for street lighting on State Street, and paying for engineering costs for a proposed walking path along US 131.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: The management discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the entity.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status.

The remaining statements are fund financial statements, which focus on individual parts of the entity in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Authority as a whole using the accrual accounting method, as used by private companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Authority's assets and liabilities; this is one method to measure the Authority's financial health or position.

Over time, increases/decreases in an Authority's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Authority, you may also have to consider additional factors such as tax base changes.

The activities of the Authority are reported as governmental activity. The Authority has no business-type activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Authority's funds, focusing on significant (major) funds, not the entity as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the entity's board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The entity has the following types of funds:

General Fund – All of the Authority's activities are included in this fund. The fund is presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the government-wide statements and the fund statements are disclosed to explain the differences between them.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net assets increased during the year, impacted primarily by the reduction in debt owed on the street lighting projects in the District. The total net assets balance at the end of the year was \$31,101.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The activities of the general fund have remained constant, consisting of contractual services and other operating costs and community projects. The revenues collected to

fund the activities increased only slightly due to an increase in taxable values within the DDA district and the sale of a developed lot. The excess of revenues over expenditures was \$9,241 in the fund financial statements.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets: The Authority incurred no "capital" costs during the year.

Long-Term Debt: The Authority has agreed to service two capital lease agreements in the name of the Village of Mancelona used to finance the purchase of street lights within the DDA district. The Authority paid \$37,274 to the Village during the year to satisfy the debt requirements.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Authority has entered into an agreement with the Village of Mancelona to pay the Village for various services in the DDA district.

CONTACTING ENTITY MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have any questions concerning this report please contact myself or Ms. Joan Shannahan.



Mike Biehl, DDA President

MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
FEBRUARY 29, 2008

ASSETS	
Current Assets	
Cash - Checking	\$ 1,170
Certificate of Deposit	48,361
Property Taxes Receivable	63,392
	<hr/>
Total Current Assets	112,923
	<hr/>
Non-Current Assets	
Land and Land Development Costs	-
	<hr/>
Total Assets	112,923
	<hr/>
LIABILITIES	
Current Liabilities	
Current Portion of Long-Term Debt	37,274
Long-Term Liabilities	
Capital Leases - Village of Mancelona	44,548
	<hr/>
Total Liabilities	81,822
	<hr/>
NET ASSETS	
Investment In Capital Assets	-
Net Assets, Unreserved	31,101
	<hr/>
Total Net Assets	\$ 31,101
	<hr/>

See accompanying notes to the financial statements

MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 29, 2008

	<u>P R O G R A M R E V E N U E S</u>				<u>NET REVENUE/</u> <u>(EXPENSE) AND</u> <u>CHANGE IN</u> <u>NET ASSETS</u>
	<u>EXPENSES</u>	<u>CHARGES</u> <u>FOR SERVICES</u>	<u>OPERATING</u> <u>GRANTS &</u> <u>CONTRIBUTIONS</u>	<u>CAPITAL</u> <u>GRANTS &</u> <u>CONTRIBUTIONS</u>	
GOVERNMENTAL ACTIVITY Preservation/Beautification of Downtown Mancelona Area					
	\$ (24,422)	\$ -	\$ -	\$ -	\$ (24,422)
GENERAL REVENUES					
Property Taxes					63,392
Interest Income					2,676
Loss on Sale of Properties					(11,092)
Total General Revenues					54,976
Change in Net Assets					30,554
Net Assets, Beginning of Year					547
Net Assets, End of Year					\$ 31,101

See accompanying notes to the financial statements

**MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
FEBRUARY 29, 2008**

ASSETS

Cash - Checking	\$ 1,170
Certificate of Deposit	48,361
Property Taxes Receivable	63,392
	<hr/>
Total Assets	112,923
	<hr/> <hr/>

LIABILITIES

Accounts Payable	-
	<hr/>
Total Liabilities	-
	<hr/>

FUND EQUITY

Fund Equity	
Fund Balance - Unreserved	112,923
	<hr/>
Total Fund Equity	112,923
	<hr/>
Total Liabilities and Fund Equity	\$ 112,923
	<hr/> <hr/>

See accompanying notes to the financial statements

**MANCELONA DOWNTOWN DEVELOPMENT AUHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FEBRUARY 29, 2008**

TOTAL FUND BALANCE - PER BALANCE SHEET	\$ 112,923
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**Amounts reported for governmental activities in the Statement
of Net Assets are different because:**

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets
are capitalized (and depreciated if appropriate).

-

Long-term liabilities, including the capital leases payable, are not
due and payable in the current period and therefore are not
reported in the fund financial statements.

(81,822)

TOTAL NET ASSETS - PER STATEMENT OF NET ASSETS

\$ 31,101

See accompanying notes to the financial statements

MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED FEBRUARY 29, 2008

REVENUES

Property Taxes	\$ 63,392
Interest Income	2,676
Sale of Property	4,869
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Total Revenues	70,937
	<hr/>

EXPENDITURES

Engineering Costs	10,037
Contractual Services	4,669
Community Projects	4,601
Flowers	1,884
Audit	1,400
Legal Fees	1,200
Insurance	318
Property Taxes	173
Postage & Supplies	40
	<hr/>
Total Expenditures	24,322
	<hr/>

Excess (Deficiency) of Revenues Over Expenditures	46,615
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OTHER FINANCING SOURCES (USES)

Lease Payments to Village - Street Lighting	(37,374)
	<hr/>

Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	9,241
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Fund Balance - Beginning of Year	103,682
	<hr/>

Fund Balance - End of Year	\$ 112,923
	<hr/> <hr/>

See accompanying notes to the financial statements

**MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 29, 2008**

NET CHANGE IN FUND BALANCE - PER STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE	\$	9,241
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**Amounts reported for governmental activities in the Statement
of Activities are different because:**

Governmental funds do not report long-term debt; therefore, debt service payments are recorded as an expenditure. However, in the government-wide financial statements, long-term debt is recorded and debt service payments are applied against the outstanding balance.		37,274
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The governmental fund reflects the proceeds from the sale of fixed assets. However, in the Government-wide statement, the actual gain or loss from the sale is shown.		(15,961)
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Governmental funds report capital outlays as expenditures. However, in the Government-wide statements, the cost is capitalized and recorded as a non-current asset.		-
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CHANGE IN NET ASSETS - PER STATEMENT OF ACTIVITIES	\$	30,554
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See accompanying notes to the financial statements

**DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008**

NOTE A: ENTITY

The Downtown Development Authority was organized in July, 1994, by the Village of Mancelona, under Public Act 197 of the State of Michigan. Its purpose is to analyze the impact of economic changes and growth in the downtown district. The district is defined by Village Ordinance 74.

The Village of Mancelona has been designated as the financial oversight agency of the Authority. The Authority is presented as a discrete component unit in the financial statements of the Village.

Upon dissolution of the Authority, all remaining assets and liabilities will revert to the Village of Mancelona.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Mancelona Downtown Development Authority are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures, of the Authority's financial activities for the fiscal year ended February 29, 2008.

The accounting policies of the Authority conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On March 1, 2003, the Authority adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Village's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information for the Authority as a whole. Individual funds are not displayed, but the statements distinguish governmental activities from business-type activities, generally financed in whole

**DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

or in part with fees charged to external customers. Due to the nature of the operations of the Authority, there are no business-type activities. It is a single-purpose government engaging in only governmental activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. The Authority engages in one functional activity – the preservation and beautification of downtown Mancelona. Program revenues include: (1) charges for services which report fees and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program users. At this time the Authority has no program revenues. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for the Authority's governmental fund.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Authority reports the following major governmental funds:

General Fund – this fund reports operations that provide services to the downtown district which are financed primarily by property tax revenues.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

**DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability occurs, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

PROPERTY TAXES

Taxes are levied on parcels in the district each year and are recognized as revenue in that fiscal year. Taxes are assessed on a lien date of either July 1st or December 1st, depending if it is the Village tax or Township tax. The tax revenue is calculated by multiplying the number of mills times the increase in taxable value from the base year. The base year (1995) taxable value was \$3,349,178, the 2007 taxable value was \$5,768,309, creating an incremental taxable value of \$2,419,131.

CAPITAL ASSETS AND DEPRECIATION

The Authority currently owns no property. Land is not depreciated. Ownership of any assets purchased with the Authority's funds reverts to the Village of Mancelona if the DDA dissolves.

**DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNT/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures have been shown on a line-item basis. The approved budget of the Authority was adopted on a fund basis.

Budgets for the Authority are prepared by the board and presented to the Village Council of Mancelona for approval before March 1 of each year. Amendments are also approved by the Village Council as needed.

During the year ended February 29, 2008, no over expenditures were noted. The budget as adopted ends on February 28 of each year. There are no carryover budget items. The budget is adopted on the modified accrual basis of accounting.

NOTE C: CASH AND CASH EQUIVALENTS

Cash consists of bank accounts with original maturities of 90 days or less.

All cash deposits are maintained in financial institutions in the Mancelona, Michigan area. The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 – Uncollateralized.

**DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008**

NOTE C: CASH AND CASH EQUIVALENTS (CONTINUED)

	<u>BANK BALANCE</u>	<u>1</u>	<u>CATEGORY 2</u>	<u>3</u>	<u>CARRYING AMOUNT</u>
Cash Deposits	<u>\$ 49,531</u>	<u>\$ 49,531</u>	<u>-</u>	<u>-</u>	<u>\$ 49,531</u>

NOTE D: DUE FROM OTHER GOVERNMENTS

Property tax revenues for the year ended February 29, 2008 are recognized and receivable as follows:

Village of Mancelona	\$ 35,761
Mancelona Township	27,631
Total	<u>\$ 63,392</u>

Management considers the receivable balance to be fully collectible.

NOTE E: LONG-TERM DEBT

CAPITAL LEASE

In January 2003, the Village of Mancelona entered into a capital lease agreement in order to finance a street lighting project within the downtown district. The street lights are owned by and the debt was incurred by the Village; therefore, those activities are recorded in the Village's financial statements. However, the Authority has agreed to service the capital lease obligation. Accordingly, the amount payable to the Village to satisfy the debt service requirements has been recorded as a long-term liability in the Authority's Statement of Net Assets. The debt is to be repaid in semi-annual installments of \$10,000 beginning July 1, 2003 through July 1, 2009.

In March 2004, the Village of Mancelona entered into a second capital lease agreement to finance a street lighting project on West State Street. The lights and debt are in the name of the Village. However, the DDA has agreed to service this obligation as well. The semiannual payments are \$8,637 through October, 2011.

Following is a schedule of the future payments on an annual basis:

Year ended February 29, 2009	\$37,274
2010	27,274
2011	<u>17,274</u>
Total	<u>\$ 81,822</u>

**DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED FEBRUARY 29, 2008**

NOTE F: INSURANCE

Liability insurance is paid for by the Village of Mancelona. Bond insurance is carried by the Authority for misappropriations.

MANCELONA DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GOVERNMENTAL FUND
YEAR ENDED FEBRUARY 29, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Property Taxes	\$ 43,000	\$ 43,000	\$ 63,392	\$ 20,392
Interest Income	-	-	2,676	2,676
Sale of Property	-	-	4,869	4,869
Total Revenue	43,000	43,000	70,937	27,937
EXPENDITURES				
Engineering Costs	10,000	10,000	10,037	(37)
Contractual Services	4,800	6,000	4,669	1,331
Community Projects	-	3,376	4,601	(1,225)
Flowers	2,000	1,900	1,884	16
Audit	1,300	1,500	1,400	100
Legal Fees	1,000	1,500	1,200	300
Travel Reimbursement	500	500	-	500
Insurance	325	325	318	7
Property Taxes	-	-	173	(173)
Office Supplies	200	200	40	160
Association Fees	500	500	-	500
Advertising	200	200	-	200
Telephone	-	100	-	100
Total Expenditures	20,825	26,101	24,322	1,779
Excess (Deficiency) of Revenues Over Expenditures	22,175	16,899	46,615	29,716
OTHER FINANCING SOURCES (USES)				
Lease Payments to Village - Street Lighting	(40,000)	(40,000)	(37,374)	2,626
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	(17,825)	(23,101)	9,241	32,342
Fund Balance - Beginning of Year	103,682	103,682	103,682	-
Fund Balance - End of Year	\$ 85,857	\$ 80,581	\$ 112,923	\$ 32,342

See accompanying notes to the financial statements